FACT SHEET

PAY-GO

PREPARED BY: DEMOCRATIC STAFF, SENATE BUDGET COMMITTEE

April 7, 2004

Republicans' Opposition to Pay-Go Highlights Their Lack of Fiscal Responsibility

The Bush administration's and Republican congressional leadership's opposition to restoring a strong pay-go budget enforcement rule in the Senate highlights their lack of fiscal responsibility. News reports indicate that the closed-door Republican-only conference negotiations on the FY 2005 Budget Resolution have bogged down over the House leadership's refusal to accept the pay-go provision that was added to the Senate budget resolution. This resistance to adopting such a common sense provision demonstrates that the Bush administration and the Republican leadership are more concerned with promoting their tax cut agenda than they are with balancing the budget and restoring fiscal discipline.

Pay-go is a crucial budget enforcement tool

Pay-go, or pay-as-you-go, is one of the crucial budget enforcement tools that allowed the federal government to move from deficit to surplus in the 1990's. The original pay-go provisions – a statute first adopted as part of the 1990 Budget Enforcement Act and later renewed in 1993 and 1997, as well as a Senate-only pay-go rule – required that new mandatory spending and tax cuts be paid for so that the deficit was not increased. The GOP opposed extending the statute, letting it expire in 2002, and has weakened the Senate-only rule – primarily because those provisions presented an obstacle to President Bush's deficit-financed tax cuts. Since then, deficits have skyrocketed and are expected to reach almost $500 billion this year.

Pay-go amendment added to Senate budget resolution

During floor consideration of the FY 2005 budget resolution in the Senate, a Democratic amendment was adopted that restored a strong pay-go rule in the Senate. Under that rule, no mandatory spending or tax cuts can be considered in the Senate unless they are paid for, or unless 60 Senators vote to waive the rule.

The House budget resolution contains no pay-go provision at all, although the House Republican leadership has proposed separate legislation that would apply pay-go only to spending increases, while allowing tax cuts that increase the deficit.

House Republican leadership still pretends tax cuts don't impact the deficit

Despite obvious evidence that the President's tax cuts have been the largest single factor contributing to the explosion of deficits over the last few years, House Republican leaders continue to insist that tax cuts pay for themselves. House Majority Leader Tom DeLay (TX) recently stated:

"We, as a matter of philosophy, understand that when you cut taxes the economy grows, and revenues to the government grow...The whole notion that you have to cut spending in order to cut taxes negates that philosophy, and so I'm not interested in something that would negate our philosophy."

It is unfortunate that the Republican leadership and the White House are more interested in being consistent with their philosophy and ideology than they are in reducing the deficits they have created and adopting policies that produce the best results for the American people.

Pay-go must apply to both spending and tax cuts

Republican proposals to apply pay-go only to spending are not enough. Although total federal spending has gone up in the last few years – primarily for defense, homeland security, and the response to September 11 – spending as a percent of GDP is still below the levels reached in the 1980's. The reality is that the primary cause of the skyrocketing deficit is the dramatic drop in revenues since 2001, with revenues now down to 15.8 percent of GDP – their lowest level since 1950. If we ever hope to emerge from the deficit swamp, pay-go must apply to both spending and tax cuts.

Pay-go does not prohibit tax cuts

The pay-go rule does not prohibit future tax cuts or the extension of existing tax cuts. It simply says that those tax cuts must be paid for by cutting spending or raising other revenue so that the deficit is not increased – or 60 votes will be required. In other words, it raises the bar for unpaid-for tax cuts, so that only tax cuts with strong support in Congress can be adopted if their costs are not offset.

It is clear that the extension of the child tax credit, marriage penalty relief, and 10 percent tax bracket could all pass this higher hurdle. So any claim that restoring this strong pay-go rule would put those in jeopardy is just wrong.

Federal Reserve Chairman Greenspan has repeatedly called for restoration of pay-go

Federal Reserve Chairman Alan Greenspan has repeatedly urged Congress to restore pay-go. In prepared testimony before the Senate Banking Committee last year, he stated:

"...[A] budget framework along the lines of the one that provided significant and effective discipline in the past needs, in my judgment, to be reinstated without delay. I am concerned that, should the enforcement mechanisms governing the budget process not be restored, the resulting lack of clear direction and constructive goals would allow the inbuilt political bias in favor of growing budget deficits to again become entrenched."

Chairman Greenspan has also consistently maintained that pay-go should apply to both spending and tax cuts. In testimony before the House Budget Committee in February, he responded to a question from Representative Spratt (D-NC) as follows:

REP. SPRATT: Mr. Chairman, to follow up on your last comment in saying that you would favor an extension of the PAYGO rule. Do you mean the PAYGO rule in its original form, that would apply both to entitlement increases and to tax cuts, so that both would have to be offset and be deficit neutral?

MR. GREENSPAN: Yes, I'm talking about the particular rule that was in place before its expiration on September the 30th, 2002.

Pay-go represents test of fiscal discipline
The restoration of pay-go represents a fundamental test of whether Congress is serious about restoring fiscal discipline. The Republican leadership's opposition to restoring pay-go shows that their talk of fiscal responsibility is just that – talk.

* * *

Senate Budget Committee Democratic Staff, Dirksen 624
Contact: Stu Nagurka (202) 224-7436 or Steve Posner (202) 224-7925